Board of Directors in India – An Analytical Survey

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An Introduction (abridged)

The Board of Directors as an institution has come under serious examination, especially in the developed countries and to some extent in our country also. The Board of Directors is the highest policy making body in a corporate structure and is, therefore, subject to review by various groups – the academics, Government, lenders, shareholders, corporate analysts, etc. In the context of this, at the present juncture, it is the first two segments which have focussed a great deal of attention on the functioning of the Boards of Directors. With the disbursement of substantial amounts of public money to the private sector companies by the financial institutions, there is an increased concern to monitor the performance of the companies more closely as the institutions have a high degree of stake involved in them. This has also led to the necessity of influencing corporate performance through a competent Board. It is in this context that a study about the Boards of Directors assumes special significance.

In the history of Indian industrialisation, which commenced in the second half of the nineteenth century, the first phase was dominated by these illustrious entrepreneurs, under whose guidance the infant organisations sailed through their formative years. However, as the organisation matures, the complexity of the organisation system increases and the collective management process starts. From a mere legal necessity, the Board becomes a management necessity. Historically in India we have reached a stage where the early entrepreneurs have built large industrial empires which can no longer be managed single handed. In the initial phase of the development of an organisation, the founding father guiding the corporate body, the Board was usually relegated to a secondary position. And now at a stage when most of the early entrepreneurs are no more with us and also when the industrial organisations have crossed their formative years, the Board has assumed a high degree of significance. The significance of the Board is further enhanced by the abolition of the Managing Agency System, an alternative form of corporate management, which had over-shadowed the Board of Directors form of corporate management right from the early days of the joint stock enterprises till the late sixties.

Another important development which has added further to the significance of the Board is the emergence of a large number of public sector enterprises. Unlike their private sector counterparts, companies in the public sector usually do not have the founder entrepreneurs to provide strong leadership in the formative years. As a result, the Boards of Directors assume the true legal position of leadership and policy making role right from the beginning.

Even in western countries changes have occurred in the direction of increased importance of the Board. The changes are reflected in the following comment by Andrews: "The revival of the Board of Directors as an important instrument of corporate management has been in the agenda as unfinished business for a long time. It has been given an injection of urgency by such different social forces as the apparently innocuous worker participation in the two-tier Boards of Europe and the repeated regulations in the United States of illegal political contributions at home and improper payments abroad. The Non-business public, including such regulatory agencies as the Securities and Exchange Commission, looks to the Board for assurance that the largely unsupervised, often powerful corporation is being managed legally and responsibly.

"Thus the dignified, well meaning, competent, but largely inactive board of the past, relaxed in its support of the Chief Executive who brought it together, is being asked to cast off its old skin. It is now expected to show itself as the active, informed, and objective guardian of shareholders' and public's interests."

Thus at a stage when a number of industrial organisations have crossed their formative years and also a large number of public sector companies have emerged in the industrial map of India, theoretically the Board as a body can be assumed to have achieved its legal status as the highest agency for corporate policy-making. It is in this context that some research on the Boards of Directors has been considered timely.

The research idea was inspired by the absolute dearth of literature in this important area of corporate management, especially in the context of India. The present research is aimed to be a survey of the structure and functioning of the Board of Directors, the emphasis being on the coverage of a broad spectrum of the above two aspects, rather than being an isolated in-depth analysis of a specific issue.

Objective of this study:

Against the background of such a dearth of literature in this area of corporate management, especially on the empirical side, the present study aims to contribute to a limited extent by conducting an empirical study on the structure and function of the Boards of Directors in the Indian Corporate Sector. Unlike most of the studies in this area at present, it will go one step beyond mere presentation of facts; the date will be subjected to further statistical analysis, wherever possible, in a comparative framework.

Scope of the Study

The Indian Corporate sector is made up of three categories of companies registered under the companies act: (1) companies limited by shares, (2) companies limited by guarantee and (3) unlimited companies. For the purpose of our study, we will include only the first category. Further, companies limited by shares are themselves of two types; public limited and private limited. A further restriction is imposed on the scope of the study by considering only the public limited companies.

In the final analysis, the broad scope of the study is restricted to the actively trade stock exchange enlisted companies in the private sector and companies in the public sector.